



MAYOR JERRY SANDERS
FY08 BUDGET INTRODUCTION REMARKS
TO THE SAN DIEGO CITY COUNCIL
APRIL 16, 2007

It is my pleasure today to appear before you to present a balanced budget for FY08 that maintains municipal services. This is a reform minded budget that begins to address the structural deficits and long-term obligations that unless meaningfully funded promise to drag the City's treasury into chaos. I look forward to your review and deliberations of my budget proposal over the next two months. This is an incredibly important time of year for our community.

I invite the public to become aware of our City's budget and to become involved. The budget is now posted on the City's web site at www.sandiego.gov. Over the course of the next several weeks, I will host a budget town hall in each of the Council districts to share important elements of the budget with our members of our community.

Section 1: Balanced Budget Closes \$87.4 Deficit by Reforms and Cost-Cutting

In November of last year, I identified an \$87.4 million deficit. At the time, I thought -- and we said -- that it would not surprise me if we had to cut services in order to balance the budget. Given the fact that I have a responsibility to be truthful with our citizens, it was a possibility that I wanted everyone to appreciate.

Because of that deficit and with the goal of making City government more efficient generally, my administration stepped up the full frontal attack that we had already declared on the inefficiencies associated with our government's processes.

The result is a more streamlined city operation. And a budget proposal that will allow us to continue to provide basic city services to our citizens at the same levels as this fiscal year -- and in some cases increased levels of service. But none of this would be possible without the many permanent and fundamental reforms that are part of the budget.

Over the past year, my administration has been examining virtually every department, process and function of City government with the objective of reducing costs and creating managerial efficiencies. This process, known as Business Process Re-engineering (BPR), will bring tens of millions of dollars in savings.

The Council will consider many of the cost-cutting recommendations as part of the budgetary process. We did not want to miss this opportunity to get as many of these new efficiencies before you. Let me give you an example of what I mean.

Section 2: Fleet Maintenance Reforms Indicative of Progress

The purchasing and maintenance of the City's vehicles has historically happened in silos -- with virtually no coordination between departments. The police and fire-rescue departments took care of their own vehicles and the General Services department took care of the rest of the City's vehicles.

The result of the fleet service BPR -- which will be presented as part of the budget -- is that there will now be one fleet service department for the entire City. This change will improve service levels and save the City approximately \$2.6 million annually.

Fire trucks used to be sent out of the county for repair. That was extraordinarily expensive and time consuming. We will now be repairing them at our own facility, thereby getting them back on the road quicker at less expense. This is the same kind of thinking that we have tried to bring to every review of our processes.

Section 3: City Payroll will have 710 Fewer Employees

Major savings will also be achieved through personnel reductions. Approximately 672 full time positions will be permanently eliminated from the City's budget in FY08. Since I took office in December 2005, we will have eliminated a total of 709.53 full time positions from the City's payroll.

And in anticipation of my FY09 budget, I will propose cutting another 250 positions. All in all, this will represent a cut of approximately 960 positions or 12.4% of the city's mayoral workforce, excluding sworn law enforcement positions.

There will be substantial budgetary savings that will come from these cuts. Less employees also means savings in terms of the contribution to the pension and retiree healthcare systems. There will also be savings from non-personnel expense categories. It's the right thing to do.

Section 4: More Employees DOES NOT equal Better Service

I have heard two observations about service levels that I want to speak to for a moment.

The first is that we can't provide the same service levels with fewer City employees.

Some have said that it's spin when I assert that service levels will not diminish given the fact that we will have fewer employees. I don't agree. I don't think that more people equal better service. More people certainly equal greater costs but it does not follow that more people equal greater service levels.

Every day, there are literally thousands of businesses in our community that have to address this type of issue. When times are rough and they need to pay off debt or they want to invest in a new

product offering, they make things work with fewer employees. Or offer more services with the employees they have.

Over the past decade, the City has added roughly 2,000 more employees. I don't necessarily believe that these additions have aggregated to an increase in service levels.

Only in government, when times are tough, would you add more employees, assume greater debt not just from their employment but from other obligations and in the end, not offer better service. That could never work in the private sector. It shouldn't work here at City Hall either.

It is true that we will be asking our dedicated City employees to do more. And I appreciate that. It will be incumbent on us as managers to ensure that things don't fall through the cracks and that the workload is redistributed.

Will things change? Absolutely. Will we go about providing the same service in a more efficient manner? You bet. But as with all change processes, there will be bumps in the road. I acknowledge that and want all of our citizens to know that as well. When you reduce your employment by 12%, there are going to be transitional issues. But I believe those issues will be temporary in nature and that we will have a far more efficient operation on the other side of our transition.

We have a number of obligations in this City that been ignored for quite a long time. They must be funded in a meaningful way. I firmly believe that we can do more with less. This challenge belongs to all of us, not just me as Mayor.

Section 5: Better Way to Measure Service Levels

Secondly, I have heard some question our ability to say that we are maintaining municipal service levels while saying that we can't effectively measure them. I can appreciate how folks might be confused.

But both statements are accurate and completely reconcilable.

My FY08 budget proposal locks in place the same municipal services that we have had this year, albeit in a more efficient manner. Our residents' trash will be picked up on the same schedule. Library hours will be the same. Rec center and pool hours will continue as planned. Funding to our arts and culture commission – and the many institutions they, in turn fund, will continue. This is the way in which the City has measured service levels for years and it will continue into FY08. Prior to my taking office, services had been slashed for three consecutive years. My budget last year reversed that tide.

In some cases, my budget proposes enhancements to services this year. For example, my FY08 budget includes a 96% funding increase for street repairs. The amount of City streets that we will repair has increased by 448% since I took office. There are also \$10 million in enhancements for our public safety personnel.

What I am saying is that there should be a better way – a more enlightened, effective and useful way -- of measuring service levels to assess whether or not we are truly making progress.

For example, right now, we measure the number of miles of streets that we re-pave. That information, to me, is interesting but has little use. We've been doing it that way for years and that's fine – but there's a better approach.

Instead, my thinking is that when we discuss the maintenance of city streets, a more accurate measurement of effectiveness would be the miles of streets repaved that were most heavily traveled and most in need. The measurement that I am recommending is much more difficult, but also much more enlightened and useful.

Right now, paving a dirt road in the back country gets credit equal to repaving El Cajon Boulevard. That isn't very useful as a benchmark of our effectiveness.

This new way of measuring service levels is the entire purpose of the new management plan that I have proposed to the City Council. We have told the Council that we will be working throughout the coming fiscal year on it in anticipation of the FY09 budget.

Section 6: Sanders Budget Funds Long-Term Obligations

I am very proud that my budget includes funding for a number of long-term obligations that have historically been under funded.

These obligations include, among others, a greater contribution to the pension and retiree healthcare system, deferred maintenance to include the storm drain pollution prevention system and ADA improvements.

The unfunded liability associated with 8 of these long-term obligations now surpasses \$2.94 billion. Left unaddressed, the liability could double within the next ten years and further threaten the City's treasury and financial stability.

I aim to change this destructive and expensive behavior by beginning to pay down the principal on 7 critical long-term obligations this year and another one next fiscal year.

The hallmark of my budget is reform, cost-cutting and streamlining. I am proud of the very positive progress that we have made. But even more will be done in order to close our FY09 budget gap.

Our aggressive reform efforts will continue throughout FY08, thereby reducing the projected budget gap of \$41.8 million in FY09. I am hopeful that we can identify funding to fully close the gap.

Section 7: Mayor Opposed to Firefighter Raise/Benefits Increase

But I will need the Council's help. And that means not assuming any further obligations for which we do not have a pressing need.

I will speak to this in far greater detail during the Impasse Hearing process, but I oppose a raise for firefighters as well as the continuation of their healthcare system.

One of the reforms that I am trying to bring to City Council is objective, versus political, decision making.

Times are tough around the City right now and absent strong and compelling market conditions that argue otherwise, no employee group should get a raise.

A 4% pay increase for firefighters would cost the City \$4 million in FY08 – it's \$4 million that we don't have and money that I have not programmed into the budget. If the Council wishes to give this raise, you will have to cut some other vital City service to do so.

Over time, the raise is also worth much more than \$4 million annually because it compounds every year.

Section 8: FY08 Budget Builds on FY07 Reforms

This year's budget seeks to continue many of the reforms that we started last year.

You'll remember that last year, we eliminated the City practice of supplemental or phantom employees. We separately budgeted for overtime in the police department so that we could end the practice of balancing the budget by under-estimating overtime costs. And we fully and accurately identified overhead costs and then funded them. All of these were clever ways the old City Manager made the budget work.

Section 9: Budget will have a May Revise

We've also learned a lot since we put out the first budget last year, after being in office for just four months. One of the lessons is to put out more detail immediately. Consequently, this budget has detail on each City department. Last year, that information came out over time. It's certain much more transparent and efficient if the information is released all at once – so that's exactly what we have done.

Another reform that we learned from last year was how to reconcile changes that were made after the budget had gone to print. As you can appreciate, every single piece of information could not be included in this budget document. It would never go to print. So, we will be doing a May revise – right around the middle of next month.

The revisions, for instance, will include the portion of the bond proceeds for our capital projects and elements of the police pay increase that did not make it into the printed budget we are releasing today.

I thank the Council for its attention today and for your consideration over the next several months. We have a number of very important problems in this community and if we are to make progress toward their resolution, we must work together as partners to resolve them.

Let me end by congratulating Jay Goldstone and Mary Lewis and their staffs. They have done an amazing job and deserve our thanks.